CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 16, 2000

H.R. 2842

Federal Employees Health Benefits Children's Equity Act of 2000

As ordered reported by the House Committee on Government Reform on March 30, 2000

SUMMARY

Under current law, the Federal Employees Health Benefits program (FEHB) has no authority to enforce compliance with a child support order to provide health insurance for an employee's children. H.R. 2842 would authorize the mandatory enrollment into family plan coverage and the deduction of premium contributions from the salaries of such employees who otherwise would not participate in FEHB or employees who elect self-only coverage, unless the employee provides documentation that insurance is provided from another source or the support order has ended.

Because the federal government contributes larger amounts to the premiums for employees with family coverage, the bill would increase discretionary costs of benefits for federal employees by about $3 million in 2001 and $56 million over the 2001-2005 period.

Government contributions to FEHB for federal retirees are considered mandatory spending. Because some employees would retire while still subject to support orders, H.R. 2842 would increase the FEHB costs of annuitants and therefore would be subject to pay-as-you-go procedures. However, the mandatory costs in FEHB would be less than $500,000 in 2001, and would sum to about $4 million over the 2001-2005 period. Direct spending would increase for the health benefits of postal employees and annuitants subject to the bill's provisions, but these costs are classified as off-budget and would not be subject to pay-as-you-go procedures.

The bill would also reduce mandatory federal and state outlays for Medicaid and the State Children's Health Insurance Program (SCHIP) because some children with parents who are not complying with medical support orders would end up on those programs' rolls, with mandatory federal savings of about $16 million over the 2001-2005 period. Finally, the bill would modify the earnings test that applies to supplemental benefits paid by the Federal Employees' Retirement System (FERS), but this provision would not have significant budgetary effects over the 2001-2005 period.

The bill includes no governmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). With a greater number of children enrolled in the FEHB program, states would realize decreased expenditures in Medicaid and SCHIP totaling about $12 million over the 2001-2005 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2842 is shown in the following table. The bill would add to discretionary spending by all federal agencies for employee health benefits and would affect mandatory spending in budget functions 550 (health) and 600 (income security).

	Outlays by Fiscal Year, in Millions of Dollars				
	2001	2002	2003	2004	2005
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Incremental cost of family coverage under FEHB for more federal employees	3	7	12	16	18
CHANGES IN DIRECT SPENDING					
Postal Service contributions to FEHB	2	4	0	0	0
FEHB payments for retirees	*	*	1	1	2
Medicaid and SCHIP	-1	-2	-3	-5	-5
Total changes [a]	*	2	-2	-4	-3

Note: Components may not add to totals because of rounding.

* = less than $500,000.

a. In addition to the FEHB, Medicaid, and SCHIP effects, the bill would affect direct spending under the Federal Employees' Retirement System, but CBO estimates that those effects would be less than $500,000 a year over the 2001-2005 period.

BASIS OF ESTIMATE

CBO's estimate of the federal costs of H.R. 2842 is based on assumptions about the number of employees who would be required to obtain family coverage who do not already do so, and the federal share of the change in spending by plans participating in FEHB for newly covered employees and children. In addition, CBO estimated savings for Medicaid and SCHIP based on assumptions about the number of children who would be covered by those programs under current law, but who would be covered by FEHB under the bill. Finally, the estimate of savings from the FERS annuity supplement policy change is based on the number of FERS retirees subject to the earnings test and the increased recoveries that can be expected from applying the tests over a longer period.

Spending Subject to Appropriation

H.R. 2842 would increase the number of federal employees who obtain FEHB family coverage because they are required to do so by a child support order by an estimated 11,500 workers. Data from the Census Bureau (Current Population Survey, April 1996 supplement) indicates that about 1 percent of the population, ages 18 through 64, fails to comply with a medical support order. Assuming that the rate of noncompliance among federal employees is similar to the national rate, after adjusting for the different age distribution of federal workers, CBO estimates that about 23,000 federal employees (not including postal workers) are not in compliance with a medical support order. Because administrative barriers in the child support enforcement system limit how many support orders are enforced, CBO expects that about half of those federal employees would be brought into compliance with medical support orders.

CBO also expects that it would take about four years to identify and bring into compliance those 11,500 employees. Because federal employment is likely to remain close to current levels over the next five years, we assume that newly applied medical support orders would be approximately balanced by orders that end or by other employee attrition.

Based on information from the Office of Personnel Management (OPM), CBO estimates that the costs incurred by FEHB plans for single-parent families average two-thirds of the cost for two-parent families. For the purposes of this estimate, we assume that 90 percent of the employees brought into compliance with medical support orders under H.R. 2842 have self-only coverage under current law. For those employees, the estimated increase in federal spending would be about $900 per family policy in 2001, which is the difference between the federal share of the annual premium for self-only coverage and two-thirds of the federal share of the premium for family coverage, on average. Once expected compliance is fully phased-in (in 2004), the incremental cost of FEHB coverage for conversion from self-only to family coverage would cost about $9 million a year in 2001 dollars.

CBO assumes that the remaining 10 percent of the affected employees who would be brought into compliance with medical support orders would have no FEHB coverage under current law. For those employees, the estimated effect on federal spending in 2001 would be about $3,500 per family policy, which is two-thirds of the federal share of the average annual premium for family coverage. The annualized cost of providing family coverage for those employees with no FEHB coverage under current law would be about $4 million a year in 2001 dollars.

Assuming that agency appropriations would be increased to maintain current levels of staffing and to reflect anticipated inflation in the cost of FEHB coverage, CBO estimates that implementing H.R. 2842 would increase discretionary spending for FEHB by $3 million in 2001 and by $56 million over the 2001-2005 period.

Direct Spending

Health Care Costs. Enacting H.R. 2842 would increase costs to the U.S. Postal Service by about $2 million in fiscal year 2001 and $4 million in 2002 because an estimated 6,000 postal employees would be subject to medical support orders. By 2003, CBO anticipates that the Postal Service would increase postal rates and offset such costs. Postal Service spending and collections are classified as off-budget and thus the charges incurred by H.R. 2842 would not be subject to pay-as-you-go procedures.

A federal employee would be subject to the mandatory family enrollment until a support order expires. Some of the 11,500 employees affected by the bill would be required to cover their children after they retire from active federal employment, shifting the classification of costs from discretionary to mandatory spending. However, there are fewer support orders for older employees, and most children covered under such orders are likely to be close to reaching adulthood. Based on the rate of retirement of federal employees and assumptions about the rate of expiration of support orders, CBO estimates that the increase in direct spending by FEHB for payments to cover affected retirees would be negligible in 2001, but would total $4 million over the 2001-2005 period.

The bill would reduce spending by Medicaid and SCHIP. CBO estimates that 15 percent of the 17,500 employees and postal workers would have children who would enroll in those programs under current law if medical support orders are not enforced. (That is slightly lower than the estimated rate for the general population, reflecting an assumption that the children of federal workers are somewhat less likely to have low-enough incomes to qualify for such programs.) CBO estimates the Medicaid savings based on the average costs per child, multiplied by an average of 1.5 children covered under each support order. After accounting for anticipated inflation, the estimated federal share of Medicaid savings would be $1 million in 2001 and $16 million over the 2001-2005 period.

Some SCHIP savings also would occur, but CBO estimates that such savings would be less than $500,000 annually.

Modify Earnings Test for FERS Annuity Supplement. The Federal Employees' Retirement System pays supplemental benefits to certain nondisabled retirees until they reach age 62 and become eligible for Social Security. These supplemental benefits are subject to an earnings test. Individuals with earnings that exceed a certain level in a calendar year (about $10,000 in 2000) have their supplemental benefits reduced during the 12-month period starting on January 1 of the following year. H.R. 2842 would make reductions from the earnings test effective for the 12-month period starting on July 1 of the following year.

Under the current earnings test, OPM pays unreduced supplemental benefits for the first two or three months of each year until it receives the wage information needed to administer the earnings test. This inevitably leads to overpayments, which OPM does not try to recover. The bill's provisions would increase spending on supplemental benefits in 2001 (a one-time cost of moving the effective date to July 1) before yielding savings in later years by eliminating overpayments.

According to OPM, about 700 retirees currently have their supplemental benefits reduced because of the earnings test. (This figure will rise in the future as the number of FERS retirees grows.) CBO estimates that the earnings test reduces their supplemental benefits by 50 percent—a reduction of about $100 per month for current retirees. CBO estimates that H.R. 2842 would increase spending on supplemental benefits by about $240,000 in 2001 and reduce spending in later years. Annual savings would grow slowly and would reach $1 million in 2010.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	0	-1	-2	-3	-4	-3	-4	-4	-4	-4	-4
Changes in receipts	Not Applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2842 contains no intergovernmental or private-sector mandates as defined in UMRA. With a greater number of children enrolled in the FEHB program, states would realize decreased expenditures in Medicaid and SCHIP totaling about $12 million over the 2001-2005 period.

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